**Week 3 – Case study: Holiday property investment BN2255 Business Analytics in practice**

‘Homes in the Sun’ plc is a newly formed company that is investing in properties in popular holiday destinations with the aim of renting them out to holidaymakers in the UK and abroad during the summer months and September. It is currently considering investing in one of three properties in Greece.

* The first one is located in the island of Skiathos and costs €350,000. The company expects that yearly maintenance costs would be approximately €1200 and these will be incurred independently of the length of the time the property is rented out. For each day that the property is rented, the company has calculated that it will incur costs of €12 (for cleaning services and general maintenance). The company is considering a rent of €130 per day and at this rate expected occupancy rate is 75%.
* The second one is located in Sithonia in Chalkidiki and costs €270,000. The yearly maintenance costs for this property would be approximately €1500, while the daily costs of each day the property is rented would also be €12. For this property, the company is considering a rent of €105 per day and at this rate expected occupancy rate is 80%.
* The final property is located in Peramos in Kavala and costs €180,000. The yearly maintenance costs for this property would be approximately €900, while the daily costs of each day the property is rented would also be €9. For this property, the company is considering a rent of €75 per day and at this rate expected occupancy rate is 70%.

Business tax rates in Greece are currently set at 25%; the property in Peramos benefits from a lower tax rate of 20% due to increased incentives for investment in this area.

1. Based on the above information, create an Excel model that will guide the investment decision process for ‘Homes in the Sun’ plc.
2. After further consideration, the company has drawn a more detailed forecast of the expected occupancy rates for the next five years, given below:

|  |  |  |  |
| --- | --- | --- | --- |
| **Expected occupancy rate (variable)** | **Skiathos** | **Sithonia** | **Peramos** |
| Year 1 | 69% | 71% | 68% |
| Year 2 | 70% | 79% | 72% |
| Year 3 | 76% | 84% | 71% |
| Year 4 | 78% | 81% | 69% |
| Year 5 | 76% | 80% | 67% |

The company also has access to a financial product that provides an annual rate of return of 4.3%. Modify your model to include this additional information on the decision-making process.

1. Bonus Question!: Given the alternative investment available (in the financial product), should ‘Homes in the Sun’ plc invest in any of the three holiday properties if it assumes that the expected annual rate of inflation over the next five years will be 2%?
2. The company desires some additional flexibility and for this reason considers the option to withdraw from the Greek holiday property market after the end of the 5-year period (ie selling the property). Property prices are expected to rise by 13% in Skiathos, 11% in Sithonia and 7% in Peramos over the next 5-year period. The company also needs to consider that the sale of a property incurs stamp duty tax, which depends on the price of the property sold. For properties up to €150,000, stamp duty is 1% of the value of the property, for properties in the €150,000-€300,000 range, stamp duty is 3% and for properties above €300,000, stamp duty is 5%. Use the above information together with the information from part 2 to refine your model.